

Message Text

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ACTION MMO-04

INFO OCT-01 AF-10 ISO-00 AGRE-00 AID-05 CIAE-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 PA-02 DOE-15 SOE-02 HUD-02 DODE-00
DOTE-00 OES-07 /133 W
-----051873 080337Z /15

R 061443Z APR 78
FM AMEMBASSY LAGOS
TO SECSTATE WASHDC 7670
INFO USDOC WASHDC

UNCLAS SECTION 1 OF 2 LAGOS 04291

USDOC FOR OIM/SAD

E.O. 11652: N/A
TAGS: BGEN, EGEN, ECRC, NI
SUBJECT: CERP 200: HEAD OF STATE FY 1978-79 BUDGET SPEECH

1. SUMMARY: HEAD OF STATE OBASANJO BROADCAST ANNUAL END OF FISCAL YEAR BUDGET SPEECH EVENING MARCH 31. ALTHOUGH HE LISTED SEVERAL ACHIEVEMENTS IN PAST YEAR NOTABLY IN CONSTRUCTION, MAIN THEME OF SPEECH WAS THAT ECONOMY WAS SLOWING DOWN AND COUNTRY WAS LIVING BEYOND MEANS AND THAT PEOPLE MUST MAKE SACRIFICES AND WORK HARDER. REMEDIES AS OUTLINED BY OBASANJO INCLUDED RECURRENT AND CAPITAL BUDGET CUTS, INCREASED BORROWING, OUTRIGHT BAN OR PROHIBITIVE TAXATION OF NON-ESSENTIAL IMPORTS, EXPLOITATION OF NEW SOURCES OF REVENUE AND GREATER INCENTIVES FOR INVESTMENT, ESPECIALLY IN AGRICULTURE. ADDITIONAL MEASURES INCLUDE NEW BANKING AND TRADE REGULATIONS WHICH WILL REDUCE LIQUIDITY IN DOMESTIC MONEY MARKET, TAKE FEDERAL GOVERNMENT PARTIALLY OUT OF HOUSING CONSTRUCTION AND REDUCE FINANCIAL COMMITMENT TO EDUCATION. NEW SYSTEM OF FEDERAL REVENUE ALLOCATION ALSO ANNOUNCED TOGETHER WITH A "NO ACROSS-THE-BOARD" WAGE INCREASE POLICY. LEISURELY UNCLASSIFIED

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PACE OF MILITARY DEMOBILIZATION WILL BE MAINTAINED. BUDGET SPEECH BY FEDERAL COMMISSION FOR FINANCE AND EMBASSY COMMENTS ON BOTH SPEECHES WILL BE REPORTED SEPTELS. END SUMMARY.

2. ECONOMY - OBASANJO REPORTED THAT THE NIGERIAN ECONOMY CONTINUED TO GROW IN FY1977-78 (APRIL 1, 1977 TO MARCH 31, 1978) BUT HAD SLOWED DOWN COMPARED TO THE

PREVIOUS YEAR'S IMPRESSIVE 10 PERCENT GROWTH. ALTHOUGH THE AGRICULTURAL SECTION EXPERIENCED SOME GROWTH, ITS PERCENTAGE SHARE OF GDP DECLINED. PETROLEUM SECTOR'S PERCENTAGE SHARE OF GDP ALSO DECLINED. NO STATISTICS WERE GIVEN.

3. THIRD NATIONAL FIVE-YEAR DEVELOPMENT PLAN - HEAD OF STATE CITED PROGRESS LAST YEAR IN ACHIEVING FIVE-YEAR PLAN, HIGHLIGHTING RECENTLY COMPLETED 10 BERTH TIN-CAN ISLAND FACILITY. OTHER PROJECTS MENTIONED WERE SHAGAMU AND ASHAKA CEMENT PLANTS, SAVANNAH SUGAR PLANTAUTION AND TELEPHONE NETWORK EXPANSION. HOWEVER, DESPITE THESE ACHIEVEMENTS, OBASANJO AND FMG WOULD "CONSOLIDATE ITS DEVELOPMENT EFFORTS DURING THE NEXT FISCAL YEAR BECAUSE OF BUDGETARY CONSTRAINTS.

4. FEDERAL BUDGET - ANTICIPATING DECLINING OIL REVENUES WHICH "WILL CERTAINLY BE LESS THAN WE REALIZED LAST YEAR" OBASANJO ANNOUNCED THAT THE FY 1978-79 BUDGET WOULD BE CUT TO THE BONE. RECURRENT BUDGET IS 2.8 BILLION, A TEN PERCENT REDUCTION FROM LAST YEAR'S N3.1 BILLION. IN ADDITION, ALTHOUGH N6.7 BILLION HAS PROVISIONALLY BEEN EARMARKED FOR CAPITAL EXPENDITURES, SMC HAS APPROVED ONLY N5.2 BILLION. COMMENT: PRESUMABLY REMAINING N1.5 BILLION IN PROJECTS WILL REMAIN IN LIMBO UNTIL FUNDING IS MADE AVAILABLE FROM LOANS OR NEW TAX REVENUE, END COMMENT.

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5. REVENUE SHORTFALLS - HEAD OF STATE ESTIMATED THAT FMG NEEDS TO RAISE N4.3 BILLION TO MEET FY 1978-79 COMMITMENTS DESPITE AUSTERITY BUDGET. COMMENT: FMG PROBABLY WILL TRY TO RAISE N4.3 BILLION THROUGH VARIETY OF MEANS INCLUDING INTERNAL AND EXTERNAL BORROWING, TRADE TARIFFS AND CHARGES AND NEW INTERNAL TAXES AND TOLLS. END COMMENT.

6. BALANCE OF PAYMENTS - ALTHOUGH EXPORTS OF N8 BILLION AND IMPORTS OF N6.7 BILLION GAVE NIGERIA A N1.3 BILLION TRADE SURPLUS IN CY 1977, AN OVERWHELMING SERVICES ACCOUNT DEFICIT WAS PRIMARILY RESPONSIBLE FOR A CY 1977 BALANCE OF PAYMENTS DEFICIT OF ABOUT N600 MILLION. RESERVES THUS DROPPED TO THE N3.0 BILLION LEVEL BY END OF 1977.

7. FISCAL MEASURES - IN AN EFFORT TO STEM FOREIGN EXCHANGE OUTFLOW, RAISE GOVERNMENT REVENUES, AND PROMOTE IMPORT SUBSTITUTION INDUSTRIES, OBASANJO ANNOUNCED FOLLOWING GENERAL FISCAL MEASURES: INCREASED PORT AND EXCISE DUTIES, EXPANDED IMPORT PROHIBITION LIST (SEE SEPTEL), INCREASE IN CORPORATE INCOME TAXES FROM

45 TO 50PERCENT, IMMEDIATE PROVISIONAL TAX PAYMENT ON CORPORATE PROFITS, HIGHWAY TOLLS AND STATE GOVERNMENT PURCHASE TAXES FOR PROFESSIONAL, HOTEL AND CATERING SERVICES. HEAD OF STATE ALSO MENTIONED THAT A TASK FORCE WOULD CONTINUE STUDY TO DETERMINE IF TAX BURDEN IS DISTRIBUTED EQUITABLY.

8. BANKING/FINANCE - HEAD OF STATE ANNOUNCED THAT CREDIT EXPANSION RATE PER BANK FOR FY 1978-79 WILL BE REDUCED TO 30 PERCENT - IT WAS 40 PERCENT PREVIOUSLY.

9. DIVIDENDS - TRYING TO SPUR PRIVATE INVESTMENT, FMG IS INCREASING AMOUNT DISTRIBUTABLE GROSS DIVIDENDS FROM 30 TO 40 PERCENT. EVEN THOUGH CORPORATE TAX RATE HAS BEEN UNCLASSIFIED

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Hiked up to 50 percent, maximum annual net dividend rate now 20 percent of paid-in capital. Old rate 16 and 1/2 percent.

10. FOREIGN TRADE - IN ADDITION TO AFOREMENTIONED FISCAL MEASURES AFFECTING TRADE, FMG NOW REQUIRES IMPORTER TO MAKE ADVANCE 100 PERCENT DEPOSIT AT CENTRAL BANK FOR ALL "NON-ESSENTIAL IMPORTS." CERTAIN UNNAMED IMPORTS WILL BE EXCLUDED FROM THIS REQUIREMENT. OBASANJO ALSO ANNOUNCED FMG'S INTENTION TO HIRE FOREIGN COMPANIES OR ORGANIZATIONS TO EXAMINE "CERTAIN CATEGORIES OF GOODS" BEFORE SHIPMENT TO ENSURE THAT GOODS CONFORM TO NIGERIAN LAW AND THAT PRICES CHARGED ARE REASONABLE.

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STR-07 CEA-01 PA-02 DOE-15 SOE-02 HUD-02 DODE-00
DOTE-00 OES-07 /133 W
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FM AMEMBASSY LAGOS
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11. HOUSING - ALTHOUGH HEAD OF STATE MAINTAINED THAT FMG STILL COMMITTED TO SOLVING NIGERIA'S CHRONIC HOUSING PROBLEM, HE SAID THAT "PROGRAM EXECUTION IS HENCEFORTH A MATTER FOR STATE AND LOCAL GOVERNMENTS" ... "AND PRIVATE EMPLOYERS." IN EFFECT, FEDERAL GOVERNMENT WILL ONLY UNDERTAKE HOUSING PROGRAMS TO HOUSE FEDERAL WORKERS. EVERY FIRM OR ORGANIZATION WITH AT LEAST 500 EMPLOYEES

NOW REQUIRED TO INITIATE HOUSING OR HOUSING LOAN PROGRAMS.

12. AGRICULTURE - STATING THAT FMG HAS GIVEN AGRICULTURE HIGHEST PRIORITY, OBASANJO REVIEWED PAST ACHIEVEMENTS AND INCENTIVES BUT CONCLUDED THAT FOLLOWING NEW INCENTIVES WERE NEEDED TO BOOST PRODUCTION:

1. INTEGRATED AGRICULTURAL PRODUCTION AND PROCESSING NOW TRANSFERRED FROM SCHEDULE II (40 PERCENT FOREIGN OWNERSHIP) TO SCHEDULE III (60 PERCENT FOREIGN OWNERSHIP) TO ENCOURAGE FOREIGN JOINT VENTURES.

2. AGRICULTURAL PRODUCTION AND MARKETING WILL BE GIVEN CREDIT INCENTIVES.

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3. CAPITAL EXPENDITURES RELATING TO AGRICULTURAL PRODUCTION WILL BE GIVEN A TEN PERCENT INVESTMENT ALLOWANCE IN ADDITION TO EXISTING ALLOWANCE.

4. LOSSES INCURRED BY AGROBUSINESS COMPANIES CAN BE CARRIED FORWARD UNTIL THEY CAN BE WRITTEN OFF AGAINST FUTURE PROFITS.

5. INTEREST PAYABLE ON AGRICULTURAL LOANS WILL BE TAX EXEMPT.

6. AGRICULTURAL EQUIPMENT LEASES WILL BE GIVEN CAPITAL ALLOWANCES FOR TAX PURPOSES.

7. RE-EXPORT OF IMPORTED FOOD ITEMS IS PROHIBITED.

13. EDUCATION - ALTHOUGH STUDENTS WILL CONTINUE TO ENJOY FREE TUITION AT NIGERIA UNIVERSITIES, LOANS TO INDIGENT STUDENTS ARE NOW RESPONSIBILITY OF STATE AND LOCAL GOVERNMENT-

MENTS. FEDERAL GOVERNMENT WILL NOT PROVIDE NEW LOANS TO STUDENTS BUT WILL CONTINUE EXISTING LOAN OBLIGATIONS AND GIVE SOME BUDGET SUPPORT TO STATE GOVERNMENTS FOR EDUCATION.

14. INCOME POLICY - OBASANJO STATED THAT FMG WILL NOT ALLOW ANY ACROSS-THE-BOARD WAGE INCREASES BECAUSE ACCOMPANYING INFLATION MAKE WAGE INCREASE ILLUSIONARY. INSTEAD, GOVERNMENT WILL APPOINT PANEL TO INVESTIGATE NON-WAGE BENEFITS (I.E. SUBSIDIZED FOOD, HEALTH CARE AND HOUSING) WHICH HEAD OF STATE MAINTAINS WOULD BE NON-INFLATIONARY.

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15. REVENUE ALLOCATION - ADMITTING THAT CURRENT SYSTEM OF FEDERAL REVENUE ALLOCATION TO STATE GOVERNMENTS HAS BEEN UNSUCCESSFUL, OBASANJO/SMC HAS APPROVED FOLLOWING GUIDELINES WHICH WILL BE USED FOR INCREMENTAL REVENUE ALLOCATIONS THIS YEAR:

1. EQUITY OF ACCESS TO DEVELOPMENT OPPORTUNITIES.
2. NATIONAL MINIMUM STANDARD FOR NATURAL INTEGRATION.
3. ABSORPTIVE CAPACITY.
4. INDEPENDENT REVENUE AND TAX EFFORT
4. FISCAL EFFICIENCY.

16. MILITARY DEMOBILIZATION - HEAD OF STATE ANNOUNCED THAT 12,000 SOLDIERS WERE DEMOBILIZED AND REHABILITATED LAST YEAR. HE EXPECTED THIS PACE OF DEMOBILIZATION WILL CONTINUE.

17. MISCELLANEOUS - PUBLIC TRANSPORTATION WILL BE GIVEN GREATER ATTENTION. OBASANJO ALSO ADMITTED THAT CURRENT INFLATION INDEX "HAS MANY WAAKNESSES" AND CHARGED FEDERAL OFFICE OF STATISTICS TO PRODUCE A BETTER INDEX.

18. EMBASSY WILL SEND COMPLETE OBASANJO SPEECH UNDER AIRGRAM COVER. WILL FORWARD SYNOPSIS FEDERAL FINANCE COMMISSIONER OLULEYE'S APRIL 1 SPEECH SEPTEL WHICH SHOULD FILL IN MANY GAPS IN OBASANJO'S SPEECH. COMMENTS ON BOTH SPEECHES FOLLOW SEPTEL.
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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BUDGETS, CERP 0200, SPEECHES
Control Number: n/a
Copy: SINGLE
Draft Date: 06 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LAGOS04291
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780151-1012
Format: TEL
From: LAGOS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780486/aaaacvca.tel
Line Count: 275
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 6b925cb5-c288-dd11-92da-001cc4696bcc
Office: ACTION MMO
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 21 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3056570
Secure: OPEN
Status: NATIVE
Subject: CERP 200: HEAD OF STATE FY 1978-79 BUDGET SPEECH
TAGS: BGEN, EGEN, ECRP, NI
To: STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/6b925cb5-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014